An Introduction to Public Private Partnerships

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partnerships
British Columbia

Introduction

Public private partnerships (P3s) are a key part of British Columbia's strategy to provide affordable infrastructure that meets public needs. In 2002, the government established Partnerships British Columbia, a company owned by the Province whose mandate is to promote, stimulate and help implement P3 projects – primarily by working with and supporting public agencies as they develop partnerships with the private sector.

This paper offers an overview of P3s, including their potential benefits for both the public and private sectors. It gives examples of P3 projects currently under way in the Province and offers links to detailed information regarding the P3 experience in other jurisdictions.

What are Public Private Partnerships (P3s)?

A public private partnership is a legally-binding contract between government and business for the provision of assets and the delivery of services that allocates responsibilities and business risks among the various partners. In a P3 arrangement, government remains actively involved throughout the project's life cycle. The private sector is responsible for the more commercial functions such as project design, construction, finance and operations.

P3s take a variety of forms, with varying degrees of public and private sector involvement – and varying levels of public and private sector risk. In fact, risk transfer from the public to the private sector is a critical element of all P3s. The goal is to combine the best capabilities of the public and private sectors for mutual benefit.

For example, if a private company assumes responsibility for financing and building a highway, it also assumes responsibility for related risks: interest rates could rise; construction could be delayed; labour costs could increase; and so on.

If the company also takes responsibility for highway operation and maintenance, it assumes even more risks. For example, traffic volumes might not be as high as anticipated, and unforeseen circumstances such as mudslides, snowstorms or an earthquake could add significantly to maintenance costs.

Why would the private sector be willing to assume these risks? Because where risk exists, so does opportunity. The private sector partner gains a relatively stable, long-term investment opportunity. Revenues are in the form of either a fee for service, paid by government, or fees collected from users, as in the case of highway tolls.

Private firms also use their own strengths and abilities to add value to P3 arrangements. For example, in the hypothetical case above, the private sector partner might find efficiencies or employ innovation to offset risks and costs. The private firm could also potentially increase its revenues, for example, ensuring the most efficient vehicle flow possible. Further, the private partner would also be building P3 expertise, which could then be marketed in other sectors or jurisdictions.

What are the benefits of P3s for government and taxpayers?

P3s provide an opportunity to:

Improve service delivery by allowing both sectors to do what they do best. Government's core business is to set policy and serve the public. It is better positioned to do that when the private sector takes responsibility for non-core functions such as operating and maintaining buildings.

Improve cost-effectiveness. By taking advantage of private sector innovation, experience and flexibility, P3s can often deliver services more cost-effectively than traditional approaches. The resulting savings can then be used to fund other needed services.

Increase investment in public infrastructure. Investments in hospitals, schools, highways and other provincial assets have traditionally been funded by the Province and, in many cases, have added to levels of overall debt. P3s can reduce government's capital costs, helping to bridge the gap between the need for infrastructure and the Province's financial capacity.

Reduce public sector risk by transferring to the private partner those risks that can be better managed by the private partner. For example, a company that specializes in operating buildings may be better positioned than the government to manage risks associated with the changing demands of commercial real estate.

Deliver capital projects faster, making use of the private partner's increased flexibility and access to resources.

Improve budget certainty. Transferring risk to the private sector can reduce the potential for government cost overruns from unforeseen circumstances during project development or service delivery. Services are provided at a predictable cost, as set out in contract agreements.

Make better use of assets. Private sector partners are motivated to use facilities fully, and to make the most of commercial opportunities to maximize returns on their investments. This can result in higher levels of service, greater accessibility, and reduced occupancy costs for the public sector.

The P3 approach also encourages a "life cycle" approach to planning and budgeting, through the use of long-term contracts. For example, a company that agrees to operate and maintain a building for 50 years will have to ensure that the asset remains in a certain condition and, therefore, must include maintenance costs in its budget for the life of the agreement. By contrast, public sector planning is based on three-year cycles in British Columbia. Maintenance costs can sometimes be deferred in response to budget pressures, which can reduce the value of an asset over time.

What are the benefits of P3s for the private sector?

P3s give the private sector access to secure, long-term investment opportunities. Private partners can generate business with the relative certainty and security of a government contract. Payment is provided through a contracted fee for service, or through the collection of user fees – and the revenue stream may be secure for as long as 50 years or more.

Private sector partners can profit from P3s by achieving efficiencies, based on their managerial, technical, financial and innovation capabilities. They can also expand their P3 capacity and expertise – or their expertise in a particular sector – which can then be leveraged to create additional business opportunities. For example, the company can market its experience in other jurisdictions, once it has established a track record of working successfully with the public sector in British Columbia.

How are P3 partners selected?

British Columbia chooses P3 partners through a fair and competitive bidding process. Typically, the agency sponsoring the project will invite the private sector to submit proposals, detailing plans for meeting service delivery needs. Proposals are then evaluated to ensure they deliver value for money for taxpayers and protect the public interest.

What is the state of P3 development in British Columbia?

British Columbia's public and private sectors have a long history of working together to develop public assets and deliver public services. For example, the Province has for many years engaged private companies to build as roads, schools and hospitals; to operate facilities such as long-term care homes; and, in many cases, to maintain public assets. Even public health care is built around a partnership between the public and private sectors: for example, among other healthcare providers, doctors in British Columbia are independent, private operators, paid by the Province to deliver public services. The P3 model has also been successfully employed at the municipal level to develop public facilities such as sports complexes and arenas.

In recent years, the government has built on this foundation to engage the private sector in more formal, more complex, and longer-term public private partnerships. To guide this evolution, the Province has developed policy and guidelines to ensure that:

The Public Interest is Paramount - All P3 undertakings in British Columbia protect and enhance the public interest by addressing such factors as public health, safety, environmental protection, accessibility, equity, privacy, security and reliability.

Processes are Fair and Open – This allows taxpayers to see for themselves where P3 solutions deliver tangible benefits. It also ensures integrity in project development, and assures private partners that they will be treated fairly.

The Focus is on Results - P3 proposals are judged on the basis of what they deliver (in terms of assets, services, cost-effectiveness, innovation, etc.), rather than how assets or services are delivered, while meeting set guidelines established by governments. Public sector agencies consider a range of options for meeting service delivery needs, and only choose a P3 where it is the best option available.

The Province is Accountable – P3s are only developed where they are supported by a thorough and rigorous business case analysis. In other words, the partnership has to offer clear and tangible benefits to both the public and private sectors. Otherwise, the Province will not proceed.

British Columbia has been working to develop major new P3 infrastructure projects since 2002, with an initial focus on the transportation and health care sectors. Projects under way as of May, 2003 include:

- the Academic Ambulatory Care Centre, to be built on the Vancouver General Hospital site;
- the Fraser River Crossing Project, led by the Greater Vancouver Transportation Authority;
- the Abbotsford Hospital and Cancer Centre;
- the Coquihalla Highway (operation and maintenance); and
- the Richmond Airport Vancouver transit line.

What has the experience been in other jurisdictions?

In other jurisdictions, P3s have been used to develop large transportation infrastructure projects, including roads, railways, transit systems, seaports and airports. They have also been used in the power, water, wastewater and gas sectors, as well as for asset-based projects in health care, education, corrections and defence.

For example:

- The UK has the most P3 experience of any jurisdiction worldwide having developed 40 new hospitals using a public private partnership, with another 60 on the way, 150 new schools with another 250 underway and numerous

road and rail investment projects. In fact, all new hospital projects in the UK begin procurement as public private partnerships. For more information, go to www.partnershipsuk.org.uk

- Australia's P3 focus is on the health, legal (courts), technology (e.g. fibre optics, television studios), transportation and water sectors. For more information, go to www.partnerships.vic.gov.au

- Ireland has explored the following sectors for P3 development: transportation, water supply, rail and waste management, and education. For more information, go to: www.ppp.gov.ie

- Along with the Province of British Columbia, other levels of government across Canada are developing P3 experience and expertise.

  - Municipal governments in British Columbia have developed sports complexes in cities such as Chilliwack, Kelowna and Victoria in partnerships with the private sector.

  - Some large projects completed in Canada include the Confederation Bridge linking Prince Edward Island and New Brunswick, Highway 407 north of Toronto and the Fredericton-Moncton Highway.

  - In addition, there are a number of projects currently underway in Canada such as William Osler Health Centre and Royal Ottawa Hospital in Ontario, and the Calgary Law Courts in Alberta.

What are the characteristics of a viable P3 project?

Proceeding with a P3 may be most appropriate when:

- There is a significant opportunity for private sector innovation in design, construction, service delivery, or use of an asset;
- Clearly definable and measurable output specifications can be established suitable for payment on a services delivered basis;
- An opportunity exists for the private sector partner to generate non-government streams of revenue, to help offset public sector costs;
- Some risks can be transferred to the private sector;
- Projects of a similar nature have been successfully developed using a similar method; and,
- The private sector has sufficient P3 capacity (expertise and availability) to successfully deliver project objectives.

What's the bottom line?

P3s are relatively new to British Columbia but experience in other jurisdictions clearly shows that these arrangements – if managed properly – can have significant benefits for both the public and private sectors. Government can reduce the costs and risks borne by taxpayers; the private sector can generate business opportunities; and the public can receive better or more accessible services.

For more information on P3s in the Province, please visit the Partnerships British Columbia website at www.partnershipsbc.ca or contact Mina Laudan, Senior Communications Consultant, Partnerships British Columbia at 604-660-0985 or by e-mail: mina.laudan@partnershipsbc.ca